COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4015-05
Bill No.: Truly Agreed To And Finally Passed CCS for SS for SCS for HCS for HB 1182
Subject: Insurance Dept.; Taxation and Revenue - General
Type: Original
Date: May 28, 2004

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
General Revenue	(Unknown exceeding $950,000)	(Unknown exceeding $950,000)	(Unknown exceeding $950,000)
Total Estimated Net Effect on General Revenue Fund	**(Unknown exceeding $950,000)**	**(Unknown exceeding $950,000)**	**(Unknown exceeding $950,000)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Blind Pension	$0	(Unknown)	(Unknown)
Conservation	(Unknown)	(Unknown)	(Unknown)
Parks and Soil	(Unknown)	(Unknown)	(Unknown)
School District Trust	(Unknown)	(Unknown)	(Unknown)
Total Estimated Net Effect on All State Funds	**(Unknown)**	**(Unknown)**	**(Unknown)**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 9 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Local Government	**(Unknown)**	**(Unknown)**	**(Unknown)**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Economic Development** assume the proposal will have no fiscal impact to their organization.

Officials from the **Office of State Treasurer (STO)** assume no fiscal impact to their organization. However, the STO defers to the Office of Administration for any impact to the state.

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** provide the following assumptions related to the proposal:

100.710(9) - Makes H&R Block eligible for BUILD credits for an expansion in downtown Kansas City. This could reduce general and total state revenues.

100.850.5 - states the tax credit for H&R Block shall not exceed $950,000 annually, raising the total for this credit from $11 million to $11,950,000 annually.

137.100(8) , 144.030(38), and 144.615(3)- Exempts certain specific transactions from taxation. The BAP defers to the Department of Revenue for an estimate of the impact.

ASSUMPTION (continued)

148.330.2 - Brings the County Stock Insurance Fund back into the State Treasury. This could impact total state revenue. This fund receives approximately $5 million per year plus earned interest.

348.430.3 - Establishes January 1, 1999 and all years thereafter as eligible to claim tax credits on a quarterly basis. This could increase utilization of tax credits and reduce general revenue.

348.430.4 - Allows for the immediate use of tax credits by a contributor and allows for tax credits to be carried back three years. This could generate refunds of general revenue that could be substantial, in excess of $1 million.

Officials from the **Bi-State Development Agency** (Bi-State) assumed this proposal would allow Bi-State to participate in the specific asset financing transactions defined in the proposal. Bi-State officials stated their organization would not enter into such transactions unless there was a net benefit to Bi-State.

Officials from the **Department of Revenue (DOR)** provide the following assumptions related to the administrative impact of the proposal on their organization:

Corporate Tax -

Section 348.430 will allow the Agricultural Products Utilization Contributor tax credit to be used to offset quarterly estimated tax payments. DOR already allows this procedure; therefore, there is no fiscal impact. The section was also changed to allow the credit to be claimed in the initial year of contribution or in a carry-back year. The credit will no longer have to be utilized first in the year of contribution. This will be a change to DOR procedures. Changes to forms and programming will be needed.

Section 348.432 will allow the New Generation Cooperative Incentive tax credit to be used to offset quarterly estimated tax payments. DOR already allows this procedure; therefore, there is no fiscal impact. The section was also changed to allow the credit to be claimed in the initial year of contribution or in a carry-back year. The credit will no longer have to be utilized first in the year of contribution. This will be a change to DOR procedures. Changes to forms and programming will be needed.

It is estimated that 173 hours of programming ($5,771) will be needed to change the computer systems to handle the implementation of this proposal.

ASSUMPTION (continued)

Insurance Tax -

Section 148.330.4 adds Agricultural Product Utilization Credit and New Generation Cooperative Credit to the list of Insurance Tax credits that will not affect the distribution amounts to the schools. In addition, now the county treasurers are also to be held harmless.

This will require programming to the Insurance Tax system both by DOR and the Division of Insurance. Forms will also need to be revised. Programming should be minimal or approximately 87 hours at a cost of $2,902.

Therefore, the DOR estimates the total fiscal impact of this proposal to be one-time programming and form changes costs of $8,673.

Oversight assumes the DOR could absorb these minimal costs within current funding levels.

Officials from the **Department of Insurance (INS)** state currently the tax credits are allowed to be taken annually and are applied against the County Stock Fund. No funds collected in the county stock fund are deposited into General Revenue (GR). All funds are distributed to the county treasurer and school district in which the principal office of the company is located. This change shifts the liability of the tax credits to GR, which previously was not impacted by the redeemed credits against County Stock Funds.

In 2002, there were no agricultural, new generation cooperative or new generation processing entity tax credits taken against the County Stock Fund. In 2001, there were $303,633 in agricultural utilization credits taken by county stock companies. Legislation allows these tax credits to now immediately apply to three prior tax years. The INS anticipates, at a minimum, an amount equal to that used in 2001 would be used against prior tax years. This would create a tax liability to General Revenue of approximately $300,000, which had not been calculated before. The INS also anticipates that future tax burdens would be increased to General Revenue. It is anticipated that more entities would purchase and use these tax credits if allowed to take them against quarterly taxes. The fiscal impact is estimated at a range of $300,000 loss of revenue to GR to an unknown loss of revenue to GR. The State would also lose interest earned on premium tax collected through the year if credits are allowed on a quarterly basis.

The INS would require contract computer programming of $54,400 (640 hours @ $84/hour) to make modifications to the premium tax system so credits could be processed quarterly.

ASSUMPTION (continued)

Oversight assumes the agricultural, new generation cooperative or new generation processing tax credit portion of the proposal has no net impact on the state since the proposal does not increase or reduce the amount of tax credits available. Also, **Oversight** assumes that a small number of insurance companies would claim the tax credits quarterly. INS could absorb costs related to this proposal by maintaining a manual or personal computer based system for the insurance companies that take the tax credits rather than reprogramming their system. Should more than a few insurance companies take the quarterly tax credit or should other existing premium tax credits be allowed to be taken quarterly, the INS could request additional funding through the appropriation process.

Oversight assumes that this proposal would exempt from sales and property taxation those assets transferred to third parties as a result of certain structured financing agreements. **Oversight** notes the existing statutory exemption exempts from taxation only assets owned by, and sales to, the interstate compact agencies. **Oversight** assumes the proposal would result in unknown reductions in local sales and property tax collections for political subdivisions where otherwise taxable property related to interstate compact agencies is located.

In addition, **Oversight** assumes there could be an unknown negative impact to the Blind Pension Fund from reduced property tax collections, and to the General Revenue Fund, School District Trust Fund, Conservation Fund, and Parks and Soils Fund from reduced sales tax collections. The first fiscal impact of this proposal could be for sales taxes collected in FY 2005, and for 2005 property taxes collected in FY 2006.

Officials from the **Department of Agriculture, City of Kansas City, City of St. Louis, Jackson County, Kansas City Area Transit Authority, St. Louis County** and **Missouri State Tax Commission** did not respond to our request for a statement of fiscal impact. However, in response to similar pieces of legislation, the State Tax Commission (in response to SB 1298 and SS for SCS for HCS for HB 1182 with amendments), the Department of Agriculture (in response to SCS for HCS for HB 1182) and the Kansas City Area Transit Authority (in response to SS for SCS for HCS for HB 1182 with amendments) assumed the proposals would have no impact on their organizations.

This proposal will impact Total State Revenue.

FISCAL IMPACT - State Government	FY 2005 (12 Mo.)	FY 2006	FY 2007
GENERAL REVENUE			
Loss - General Revenue			
Increase in the annual limit for tax credits for the BUILD program	($950,000)	($950,000)	($950,000)
Reduction in sales tax revenues	(Unknown)	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON GENERAL REVENUE	**(Unknown exceeding $950,000)**	**(Unknown exceeding $950,000)**	**(Unknown exceeding $950,000)**
BLIND PENSION FUND			
Loss - Blind Pension Fund			
Reduction in property taxes	$0	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON BLIND PENSION FUND	**$0**	**(Unknown)**	**(Unknown)**
CONSERVATION FUND			
Loss - Conservation Fund			
Reduction in sales taxes	(Unknown)	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON CONSERVATION FUND	**(Unknown)**	**(Unknown)**	**(Unknown)**
PARKS AND SOIL FUNDS			
Loss - Parks and Soil Funds			
Reduction in sales taxes	(Unknown)	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON PARKS AND SOIL FUNDS	**(Unknown)**	**(Unknown)**	**(Unknown)**

FISCAL IMPACT - State Government	FY 2005 (12 Mo.)	FY 2006	FY 2007
SCHOOL DISTRICT TRUST FUND			
Loss - School District Trust Fund			
Reduction in sales taxes	(Unknown)	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND	**(Unknown)**	**(Unknown)**	**(Unknown)**

FISCAL IMPACT - Local Government	FY 2005 (12 Mo.)	FY 2006	FY 2007
POLITICAL SUBDIVISIONS			
Revenue reduction			
Reduction in property and sales taxes	(Unknown)	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON POLITICAL SUBDIVISIONS	**(Unknown)**	**(Unknown)**	**(Unknown)**

FISCAL IMPACT - Small Business

This proposal could have a direct fiscal impact on small business tax preparers.

DESCRIPTION

This proposal allows the following tax credits to be taken against estimated quarterly taxes paid:

(1) Credits for investments in eligible new generation cooperatives or eligible new generation processing entities; and

(2) Credits received for contributions to the Agricultural Product Utilization Grant Fund.

Eligible new generation cooperatives, eligible new generation processing entities, and agricultural product utilization contributor tax credits are added to the restriction that the tax credits taken against insurance premiums will not reduce moneys transferred to the county stock insurance fund.

DESCRIPTION (continued)

The required number of employees in an employee-qualified capital project is decreased from 100 to 60 in order for investors to receive a New Generation Cooperative Incentive Tax Credit.

Transfers of certain property by Bi-State Metropolitan District and the Kansas City Area Transportation District Authority are exempt from real and personal property taxes and state and local sales and use taxes.

The proposal expands the definition of "eligible industry" as it relates to the Business Use Incentives for Large-Scale Development (BUILD) Program to include a tax preparation company headquarters in Kansas City as long as the company creates 100 new jobs for eligible employees and invests at least $15 million in an economic development project. The cap for the tax credit is increased from $11 million to $11,950,000 for the benefit of the tax preparation company headquartered in Kansas City.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of Administration -
Division of Budget and Planning
Bi-State Development
Department of Economic Development
Department of Revenue
Department of Insurance
Office of State Treasurer

NOT RESPONDING: Department of Agriculture, City of Kansas City, City of St. Louis, Jackson County, Kansas City Area Transit Authority, St. Louis County and **Missouri State Tax Commission**

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HWC:LR:OD (12/02)

Director
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